

AGA officials warn winter gas bills may not drop as low as customers expect (newsletters)

Natural gas consumers should not expect their monthly bills during the 2006-2007 winter heating season to reflect the same steep price decline witnessed by wholesale gas traders during the past two or three months, according to American Gas Association officials.

"What matters is the cost of gas throughout the year," Paul Wilkinson, vice president for policy analysis at AGA, said during a media briefing in Washington, D.C., on Oct. 9. "All gas delivered to consumers will not be \$4 gas."

The October futures contract on NYMEX traded in the low-\$4/Mcf range prior to its expiration in late September. The November gas contract had traded in the mid-\$5/Mcf range before climbing during recent trading sessions into the mid-\$6/Mcf range. In 2005 at this time, the November contract was trading well above \$10/Mcf.

Wilkinson emphasized that gas utility companies purchase their supplies throughout an entire year, not just during the couple of months leading up to the start of a winter heating season. The recent drop in wholesale prices occurred after many utilities already had purchased a large portion of the gas they will use to meet expected customer demand this winter, he explained.

About 70% of AGA's member companies, which include virtually all of the nation's investor-owned gas utility companies, use financial tools to hedge gas costs each year. During the winter, about 20% of the gas consumed by utilities' residential customers comes from gas injected into storage during the summer refill season.

Some of the gas currently stored underground was purchased at a time when wholesale prices were much higher than they are now, said Roger Cooper, AGA's executive vice president for policy and planning.

The gas utility industry's use of financial and physical hedging tools means that customers will not see dramatic increases in their monthly bills when wholesale prices spike and, similarly, they will not seek dramatic price decreases when wholesale prices drop sharply, Cooper noted.

Nonetheless, AGA does expect the price of gas delivered to consumers during the 2006-2007 winter to be somewhat lower than last winter.

One of the chief reasons for the projected lower gas bills this winter is the large amount of gas expected in storage at the start of the heating season. Current storage inventories stand at 3,327 Bcf, about 12% higher than the five-year average, according to U.S. Energy Information Administration statistics.

Wilkinson noted that as long as EIA reports a net injection into storage in its Oct. 12 report for the week ending Oct. 6, U.S. working gas in storage levels will have reached an all-time high. In September, EIA predicted in its "Short-Term Energy Outlook" that working storage inventories are expected to start the upcoming winter at 3,429 Bcf.

The lower wholesale prices have led some gas producers to shut in gas production. Some of the higher-cost production has been taken offline, Wilkinson said. "There isn't a market for that gas at the moment," he said, adding that the shut-in production is likely to be a short-term situation.

Chesapeake Energy Corp, for example, announced on Sept. 27 that it had decided to shut in 6% of its unhedged natural gas production due to lower gas prices. Questar Corp. followed suit with an announcement on Oct. 3 that its Questar Exploration & Production Co. had shut-in production on a portion of its unhedged gas production.

During the press briefing, AGA President and CEO David Parker said the association remains hopeful that Congress will reach a compromise on legislation that would open more of the Outer Continental Shelf to natural gas exploration. Bills by the Senate and House vary in details, but either piece of legislation would allow gas drilling in a greater portion of the OCS.

If the Democrats win control of one or both houses of Congress in the November elections, Republican lawmakers on Capitol Hill may agree to a compromise during a lame-duck session of Congress later this year, Parker said. However, if Republicans retain control of the House and the Senate, then Republican lawmakers may feel emboldened by the election results and may wait until 2007 to seek passage of a bill that would provide access to an even greater level of gas supply, he said.

When asked about the potential contradiction of gas producers shutting in production at the same time that industry representatives are lobbying Congress for expanded access to public lands due to a tightening supply-and-demand balance, Parker responded that one of AGA's primary objectives is to promote long-term policy initiatives that will increase gas supply, thereby reducing prices for the customers of the association's member companies.